

VERMONT ENERGY INVESTMENT CORPORATION

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
JUNE 30, 2007 AND 2006**

VERMONT ENERGY INVESTMENT CORPORATION

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Wallace W. Tapia, P.C.

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Independent Auditor's Report

To the Board of Directors of
Vermont Energy Investment Corporation
Burlington, VT

We have audited the accompanying statements of financial position of Vermont Energy Investment Corporation (a nonprofit organization) as of June 30, 2007 and 2006 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Energy Investment Corporation as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The supplementary information on page 11 is presented for purposes of additional analysis and is not a required part of the above financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements referred to above and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Wallace W. Tapia, P.C.

Burlington, Vermont
December 17, 2007
Vermont Registration #333

VERMONT ENERGY INVESTMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006

ASSETS	2007	2006
Current assets:		
Cash and cash equivalents (Notes 1, 4 and 9)	\$ 2,048,786	\$ 442,228
Accounts receivable, net of allowance for doubtful accounts (Notes 1 & 4)	2,632,597	2,688,509
Contract incentive receivable (Note 8)	-	1,280,000
Inventory (Note 1)	15,656	15,004
Other current assets	70,550	69,082
Total current assets	<u>4,767,589</u>	<u>4,494,823</u>
Property and equipment, net of accumulated depreciation (Notes 2 & 6)	<u>676,827</u>	<u>468,253</u>
Other assets:		
Notes receivable (Notes 1 & 5)	<u>50,000</u>	<u>50,000</u>
Total other assets	<u>50,000</u>	<u>50,000</u>
Total assets	<u>\$ 5,494,416</u>	<u>\$ 5,013,076</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 992,095	\$ 714,539
Accrued expenses	953,929	852,924
Refundable advances - grants (Note 1)	11,243	36,995
Deferred contract income (Note 1)	172,803	187,078
Performance incentive payable (Note 8)	-	668,564
Total current liabilities	<u>2,130,070</u>	<u>2,460,100</u>
Long-term liabilities:		
Line of credit (Note 6)	600,000	-
Farm loan guarantees (Note 9)	19,465	21,009
Total long-term liabilities	<u>619,465</u>	<u>21,009</u>
Total liabilities	<u>2,749,535</u>	<u>2,481,109</u>
Net assets: (Note 1)		
Unrestricted	2,744,881	2,531,967
Temporarily restricted	-	-
Permanently restricted	-	-
Total net assets	<u>2,744,881</u>	<u>2,531,967</u>
Total liabilities and net assets	<u>\$ 5,494,416</u>	<u>\$ 5,013,076</u>

The accompanying notes to financial statements are an integral part of these financial statements.

VERMONT ENERGY INVESTMENT CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

REVENUE AND SUPPORT:	<u>2007</u>	<u>2006</u>
Energy Efficiency Utility contract income (Notes 1, 4, 8 and 9)	\$ 15,458,124	\$ 15,144,976
Energy Efficiency Utility incentive income (Note 8)	-	1,280,000
Program service revenue	2,423,363	1,791,166
Grants	85,453	137,185
Interest income	33,953	18,034
Total revenue and support	<u>18,000,893</u>	<u>18,371,361</u>
 EXPENSES AND LOSSES:		
Program services (Note 1):		
Energy Efficiency Utility expenses	14,478,280	14,943,307
Energy efficiency implementation services	76,303	122,148
General consulting projects	1,821,845	1,353,283
Other program expenses	287,134	264,308
Supporting services:		
Management and general	1,124,417	1,114,962
Fundraising expenses	-	-
Total expenses and losses	<u>17,787,979</u>	<u>17,798,008</u>
Change in unrestricted net assets	212,914	573,353
 UNRESTRICTED NET ASSETS, beginning of year	<u>2,531,967</u>	<u>1,958,614</u>
 UNRESTRICTED NET ASSETS, end of year	<u>\$ 2,744,881</u>	<u>\$ 2,531,967</u>

The accompanying notes to financial statements are an integral part of these financial statements.

VERMONT ENERGY INVESTMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 212,914	\$ 573,353
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	191,131	172,718
(Increase) decrease in accounts receivable	55,912	(1,099,512)
(Increase) decrease in contract incentive receivable	1,280,000	(1,280,000)
(Increase) decrease in inventory	(652)	20,951
(Increase) decrease in other current assets	(1,468)	(11,959)
Increase (decrease) in accounts payable	277,556	(101,959)
Increase (decrease) in accrued expenses	101,005	154,308
Increase (decrease) in performance incentive payable	(668,564)	668,564
Increase (decrease) in farm loan guarantees	(1,544)	(15,213)
Increase (decrease) in deferred income and refundable advances	(40,027)	87,355
Net cash provided by (used in) operating activities	<u>1,406,263</u>	<u>(831,394)</u>
Cash flows from financing activities:		
Advances on line of credit	750,000	1,355,000
Repayments of line of credit	<u>(150,000)</u>	<u>(1,480,000)</u>
Net cash provided by (used in) financing activities	<u>600,000</u>	<u>(125,000)</u>
Cash flows from investing activities:		
Disbursements on notes receivable	-	50,000
Acquisition of fixed assets	<u>(399,705)</u>	<u>(156,074)</u>
Net cash provided by (used in) investing activities	<u>(399,705)</u>	<u>(106,074)</u>
Net increase / (decrease) in cash	1,606,558	(1,062,468)
Cash at beginning of year	<u>442,228</u>	<u>1,504,696</u>
Cash at end of year	\$ <u><u>2,048,786</u></u>	\$ <u><u>442,228</u></u>
Supplemental Data:		
Interest paid	\$ 67	\$ 4,005

The accompanying notes to financial statements are an integral part of these financial statements.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 1 - Summary of Significant Accounting Policies:

Nature of the Organization

Vermont Energy Investment Corporation ("VEIC") is a not-for-profit Vermont corporation formed in 1986 with a mission of "reducing the costs, both monetary and environmental, of energy use". VEIC's efforts include direct energy efficiency services, energy-efficiency and renewable energy program design, and energy-efficiency and renewable energy training, research and advocacy. As discussed below, VEIC operates the "Energy Efficiency Utility" for the State of Vermont under contract to the State Public Service Board and provides services under the name Efficiency Vermont.

Basis of Accounting

The financial statements of the VEIC have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

VEIC follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets and permanently restricted net assets.

VEIC has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions.

Restricted and Unrestricted Support

Contributions and grants that are restricted by the donor (either by time or purpose) are recorded as increases in *unrestricted* net assets if the restrictions expire (that is when a stipulated time restriction ends or a purpose restriction is accomplished) in the same reporting period in which the revenue is recognized. All other donor-restricted contributions, if any, are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Conditional promises to give are not included in support until the conditions have been substantially met.

Income Taxes

VEIC is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code, and is classified as a publicly supported organization under Section 509(a)(2). In addition, contributions to the Organization qualify for the charitable contribution deduction under Internal Revenue Code Section 170(b)(1)(A).

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 1 - Summary of Significant Accounting Policies: (continued)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, VEIC considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents.

Inventory

Inventory consists of energy-efficient products such as compact fluorescent lights and is valued at the lower of cost or market using the first-in, first-out method.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair Value of Financial Instruments

Vermont Energy Investment Corporation's financial instruments, none of which are held for trading purposes, include cash, accounts and notes receivable, and notes payable. As of June 30, 2007 and 2006, the Organization estimates that the fair value of all its financial instruments does not materially differ from the aggregate carrying value recorded on the Statements of Financial Position.

Deferred Revenue and Refundable Advances

Deferred contract income represents amounts received in advance for contract services to be performed in future periods. Refundable advances represent contributions received under cost-reimbursable grants that are conditioned upon the Organization incurring certain qualifying expenses. Deferred revenue at June 30, 2007 and 2006 primarily relates to the Vermont Solar and Small Wind Renewable Energy Development Program that began in 2004.

Accounts Receivable

Accounts receivable represent outstanding amounts due from customers, net of an allowance for doubtful accounts (\$4,000 at both June 30, 2007 and 2006). The allowance is based on management's experience. Amounts are charged off as uncollectible when management determines that the receivable will not be collected.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 1 - Summary of Significant Accounting Policies: (continued)

Description of Programs

A description of the major programs included in these financial statements is as follows:

Energy Efficiency Utility

On January 1, 2006, Vermont Energy Investment Corporation was awarded a three-year, \$48 million contract from the Vermont Public Service Board to continue to centrally manage the state's core energy efficiency programs as Vermont's "Energy Efficiency Utility" ("EEU"). The contract was amended in June 2007 to raise the cap on the contract to \$73 million. Funded by mandatory charges on electric bills, the EEU helps Vermont businesses, households and farms reduce their energy use with energy efficient lighting, appliances, equipment and buildings. VEIC is reimbursed monthly for the actual costs of operating the program, including allocated indirect costs, plus a fee of 0.75% (1.45% for the contract which ended December 31, 2005). If VEIC meets specific performance targets, it can earn performance incentives of up to \$2,347,000 over the life of the current contract period from January 1, 2006 through December 31, 2008.

Energy Efficiency Implementation Services

VEIC provides direct energy efficiency implementation services to individual homeowners, businesses and institutions. The types of services primarily consist of energy audits, diagnostics, training, home energy ratings, contract management and financing assistance.

General Consulting

VEIC provides national and international consulting services to consumer and environmental organizations, electric and gas utilities, and other clients, for energy efficiency and renewable energy activities.

Note 2 - Property and Equipment:

Property and equipment consist of the following as of June 30:

	2007	2006
Leasehold improvements	\$ 717,876	\$ 702,236
Computers and software	896,730	649,829
Furniture, fixtures and office equipment	260,428	184,633
Vehicles	69,618	69,618
Subtotal	1,944,652	1,606,316
Less - accumulated depreciation	(1,267,825)	(1,138,063)
Net property and equipment	\$ 676,827	\$ 468,253

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 2 – Property and Equipment: (continued)

Fixed assets are recorded on the balance sheet at cost. Expenditures for maintenance and repairs are charged against operations. Betterments that materially extend the life of the assets are capitalized.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets and amounted to \$191,131 and \$172,718 for the years ended June 30, 2007 and 2006, respectively. The estimated useful lives of depreciable assets are as follows:

	<u>Estimated Useful Lives</u>
Leasehold improvements	6 - 10 years
Computers and software	3 - 5 years
Furniture, fixtures and office equipment	3-7 years
Vehicles	5 years

Note 3 – Operating Leases:

Vermont Energy Investment Corporation leases office space in Burlington, Vermont under three noncancelable leases that expire in December 2008, December 2011 and June 2012. VEIC does have the option, with certain restrictions, to reduce the leased area based on reductions in funding. Total lease expense under these leases and certain other month-to-month leases for the years ended June 30, 2007 and 2006 was \$267,490 and \$251,858, respectively. Future minimum lease payments (not including property tax escalators) under the noncancelable leases for years ending June 30 are:

2008	\$ 307,670
2009	280,100
2010	250,722
2011	259,267
2012	168,169
	<u>\$ 1,265,928</u>

Note 4 – Concentrations:

Concentration of Cash on Deposit

VEIC has concentrated its credit risk by maintaining deposits in financial institutions that exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

Concentration of Revenue

As discussed in Note 1, pursuant to the agreement dated January 1, 2006, VEIC is contracted to provide the services of the Energy Efficiency Utility for the State of Vermont. Revenue from this contract represented 86% and 89% of the Organization's total revenues for the fiscal years ended June 30, 2007 and 2006, respectively. Accounts receivable balances due under the EEU contract totaled approximately \$1,552,000 and \$2,174,000 as of June 30, 2007 and 2006, respectively.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 5 – Notes Receivable:

Notes receivable consisted of the following as of June 30:

	<u>2007</u>	<u>2006</u>
\$50,000 Loan to Vermont Community Loan Fund dated September 1996 (actually five \$10,000 notes with staggered original maturities from August 1997 through August 2002.) All notes have been, and continue to be, extended as they come due; interest payable annually at rates ranging from 2.5% to 4.0%.	\$ 50,000	\$ 50,000
	<u>\$ 50,000</u>	<u>\$ 50,000</u>

Note 6 – Line of Credit:

Line of credit consisted of the following as of June 30:

	<u>2007</u>	<u>2006</u>
\$3,000,000 Line of Credit with the Chittenden Bank dated December 2005; interest at Prime less .25% (8.0% at June 30, 2007) payable monthly; due in full May 2009; secured by substantially all of borrower's assets.	\$ 600,000	\$ -
	<u>\$ 600,000</u>	<u>\$ -</u>

Interest expense on the above loans totaled \$67 and \$4,005 during the years ended June 30, 2007 and 2006, respectively. VEIC also has a \$500,000 line of credit with the Chittenden Bank dated November 1999 and renewed most recently in January 2007, but has not drawn on it in either fiscal year 2006 or 2007.

Note 7 – Pension Plan:

VEIC maintains a 403(b) tax-sheltered annuity pension plan that covers substantially all employees. There are no minimum age or service requirements for employees to make contributions to the plan. For full-time employees who have completed a minimum term of service, the Organization makes employer contributions of between 2% and 6% of the employee's compensation depending on length of service. Pension expense for the years ended June 30, 2007 and 2006 was \$264,077 and \$232,701 respectively.

Note 8 – EEU Contract Incentives

As discussed above, VEIC can earn incentive bonuses under the EEU contract for meeting certain performance criteria. VEIC earned \$1,280,000 of incentives on the three-year contract that ended December 31, 2005, with the amount shown as a receivable on the Statement of Financial Position as of June 30, 2006. VEIC's senior management and board of directors earmarked a significant portion to go to staff as an "Organizational Achievement Award" with that amount shown as a liability on the Statement of Financial Position as of June 30, 2006.

VERMONT ENERGY INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 9 – Contingencies and Commitments:

Performance-Based Contract

VEIC is currently engaged in one performance-based contract with a public housing authority. This agreement calls for VEIC to manage the installation and oversee the operation of energy efficiency improvements and to guarantee the public housing authority a minimum level of energy savings. In the event the savings realized by the public housing authority does not meet the minimum guaranteed amounts, VEIC could be called upon to make up the difference between the actual energy savings and the guaranteed amounts. To date, these payments have been immaterial and therefore management has elected not to establish an allowance or reserve for any such contingency.

Efficiency Vermont Financing for Farms

As part of VEIC's role as Vermont's "Energy Efficiency Utility" (as discussed in Note 1), the Organization has agreed to guarantee loans made to Vermont farmers for the purchase of energy efficiency improvements. The loans are underwritten and serviced by the Opportunities Credit Union (OCU). VEIC as guarantor, maintains a loan loss reserve in escrow with OCU representing 50% of the EEU loan portfolio and 100% of certain loans as decided by VEIC. As stipulated in the agreement, VEIC has sole discretion to provide a reserve equaling 100% of the loan balance where OCU could not otherwise qualify the loans. The agreement also requires VEIC to "buy down" the interest rate to 0.00% on loans with terms of up to 24 months, and to 2.00% on loans with terms from 25 to 48 months. All funds used to prepay interest and maintain the loss reserve are provided through the EEU. Once a loan is paid in full, the related reserve funds must be accounted for under the terms of that program. As of June 30, 2007 and 2006, the balance held in escrow totaled \$19,465 and \$21,009, respectively, amounts included in cash and cash equivalents on the Statements of Financial Position with corresponding amounts recognized as a long-term liability.

VERMONT ENERGY INVESTMENT CORPORATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007
(With Summarized Information for 2006)

	EEU Contract	Energy Efficiency Implementation Services	General Consulting Projects	Other Projects	Total Program Expenses	Management & General	Fundraising	2007 TOTAL	2006 TOTAL
Salaries, benefits & payroll taxes	\$ 5,538,763	\$ 42,719	\$ 963,949	\$ 107,640	\$ 6,653,071	\$ 918,944	\$ -	\$ 7,572,015	\$ 7,322,246
Subcontractors & consultants	2,742,972	12,543	228,979	105,919	3,090,413	105,502	-	3,195,915	3,147,816
Incentive payments & rebates	4,678,741	-	345,811	-	5,024,552	-	-	5,024,552	5,365,423
Materials & product cost	154,236	1,068	8,486	2,025	165,815	817	-	166,632	168,289
Telephone	59,937	381	10,403	1,378	72,099	1,714	-	73,813	63,384
Travel	229,752	3,801	115,112	8,960	357,625	12,835	-	370,460	335,040
Copying & printing	166,189	8,791	4,443	2,872	182,295	324	-	182,619	271,655
Postage & shipping	29,560	1,230	3,244	637	34,671	914	-	35,585	52,091
Conferences & memberships	229,070	608	17,494	21,131	268,303	23,931	-	292,234	362,084
Office expenses	97,919	755	17,041	1,903	117,618	5,674	-	123,292	51,872
Maintenance & repairs	49,453	381	8,607	961	59,402	2,865	-	62,267	41,268
Insurance	66,692	514	11,607	1,296	80,109	3,864	-	83,973	54,835
Occupancy	268,783	2,073	46,778	5,224	322,858	15,574	-	338,432	310,625
Grants	-	-	-	24,575	24,575	-	-	24,575	28,682
Depreciation	156,810	1,252	23,178	2,484	183,724	7,407	-	191,131	172,718
Interest expense	67	-	-	-	67	-	-	67	4,005
Other expenses	9,336	187	16,713	129	26,365	24,052	-	50,417	45,975
	<u>\$ 14,478,280</u>	<u>\$ 76,303</u>	<u>\$ 1,821,845</u>	<u>\$ 287,134</u>	<u>\$ 16,663,562</u>	<u>\$ 1,124,417</u>	<u>\$ -</u>	<u>\$ 17,787,979</u>	<u>\$ 17,798,008</u>

Wallace W. Tapia, P.C.

Certified Public Accountants

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Independent Accountant's Report On Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the management of the Vermont Energy Investment Corporation ("VEIC") and by Michael Wickenden, contract administrator ("the CA") representing the Public Service Board of the State of Vermont pursuant to its Energy Efficiency Utility contracts with VEIC dated March 1, 2000 (as amended January 1, 2003) and January 1, 2006 (collectively "the Contract"), solely to assist the users in evaluating management's assertion about VEIC's compliance with requirements of the Contract and on internal control over compliance during the year ended June 30, 2007, included in the accompanying letter from management dated December 17, 2007. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have audited the financial statements of Vermont Energy Investment Corporation as of and for the year ended June 30, 2007, and have issued our report thereon, dated December 17, 2007.

In the context of the *U.S. Office of Management and Budget (OMB) Circular A-133*, which requires organizations that expend federal funds in excess of \$500,000 annually to undergo a "Single Audit", the agreed-upon procedures we performed were those procedures *that would have been performed if* 1) the expenditures of funds under the Contract were considered to be federal expenditures, 2) the Contract was a "major program" (as defined by Circular A-133) and 3) the Contract was VEIC's only major program.

Our findings related to management's assertion based on our performance of the agreed-upon procedures were: NONE (We noted no matters that would, in our opinion, have been reported as findings in the "Single Audit" reports as discussed in the accompanying letter from management dated December 17, 2007).

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of VEIC, the CA and the Public Service Board of the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wallace W. Tapia, P.C.

Burlington, Vermont
December 17, 2007
Vermont Registration #333



VERMONT ENERGY
INVESTMENT CORPORATION

December 17, 2007

Wallace W. Tapia, P.C.
P.O. Box 5777
Burlington, VT 05402-5777

Dear Sir/Madam:

We are providing this letter in connection with your performance of certain agreed-upon procedures related to our Energy Efficiency Utility contract with the Public Service Board of the State of Vermont as described in your report of equal date ("the Contract").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of June 30, 2007, and through the date of signing of this letter, the following representations and assertions:

1. We have made available to you all -
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
2. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices related to the Contract.
3. There are no material transactions that have not been properly recorded in the accounting records related to the Contract.
4. There has been no -
 - a. Fraud involving management or employees who have significant roles in internal control.

- b. Fraud involving others that could have a material effect on the financial information related to the Contract.
- 5. The following, if any, have been properly recorded or disclosed in the financial records related to the Contract:
 - a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Organization is contingently liable.
- 6. We are responsible for -
 - a. Compliance with the provisions of the Contract and we have identified and disclosed to you all provisions of the Contract that we believe have a direct and material effect on financial reports related to the Contract.
 - b. Establishing and maintaining effective internal control over financial reporting.
- 7. For the purposes of maintaining effective internal control over the compliance requirements related to the Contract and for other requirements related to financial management of the Contract, we have treated expenditures under the Contract *as if they were* federal awards and therefore make the following representations and assertions:
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."
 - b. We are responsible for complying with the requirements of the Contract and have identified and disclosed to you the requirements that are considered to have a direct and material effect on the Contract.
 - c. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to the Contract that provides reasonable assurance that we are managing it in compliance with those provisions that could have a material effect on the Contract. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.

- d. We have made available to you the entire Contract (including amendments, if any) and any other relevant correspondence with the contract administrator, fiscal agent or the Public Service Board.
- e. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the "OMB Circular A-133 Compliance Supplement," and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of the Contract, including the results of other audits or reviews.
- f. Amounts claimed were determined in accordance with relevant guidelines in OMB Circular A-122, "Cost Principles for Nonprofit Organizations".
- g. We have disclosed to you our interpretation of compliance requirements that have varying interpretations, if any.
- h. We have made available to you all documentation related to the compliance requirements, including information related to financial reports and claims for reimbursements.
- i. Contract financial reports and claims for reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- k. The copies of Contract financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the applicable party or agency, as applicable.

We understand that you are performing procedures that would have been performed in conjunction with your financial statement audit if 1) the expenditures of funds under the Contract were considered to be federal expenditures, 2) the Contract would be a "major program" (as defined by O.M.B. Circular A-133) and 3) the Contract would be VEIC's only major program. We therefore assert, to the best of our knowledge and belief, that the "Financial Statements" and "Federal Awards" sections of the "Summary of Auditor's Results" that would have been included in the "Single Audit" report for that work would be as follows:

Section I – Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified:

_____yes X no

Significant deficiency(s) identified not
considered to be material weaknesses?

_____yes X none reported

Noncompliance material to financial
statements noted?

_____yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified:

_____yes X no

Significant deficiency(s) identified not
considered to be material weaknesses?

_____yes X no

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are to be
reported in accordance with Circular
A-133, Section .510 (a)

_____yes X no

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to June 30, 2007 and through the date of our signing of this letter that would require adjustment to or disclosure in the aforementioned assertions or representations.

Signed: _____

Beth Sachs
Executive Director

Signed: _____

David Bardaglio
Financial Director